

**POSEN AREA FIRE AND RESCUE**

**Financial Statements  
For the Year Ended March 31, 2008**

**JOHNSON & SCHULZE PC**

**POSEN AREA FIRE AND RESCUE  
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# Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended

Unit Name	POSEN AREA FIRE & RESCUE	County	PRESQUE ISLE	Type	AUTHORITY	MuniCode
Opinion Date	MAY 30 2008	Audit Submitted	JUNE 6 2008	Fiscal Year	MARCH 31 2008	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 46,510.00
General Fund Expenditure:	\$ 44,627.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 5,687.00
Governmental Activities Long-Term Debt (see instructions):	

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes or in the Management Letter (Reported deviations)

CPA (First Name)	Kristy	Last Name	Schulze	Ten Digit License Number	1101025896		
CPA Street Address	1223 S. State Street, Ste A	City	Alpena	State	MI	Zip Code	49707
CPA Firm Name	Johnson & Schulze PC	Unit's Street Address	P O Box 67	City	POSEN	Zip Code	49776

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Posen Area Fire and Rescue  
Posen, Michigan

We have audited the accompanying financial statements of the business-type activities of the Posen Area Fire and Rescue, Posen, Michigan, as of and for the fiscal year ended March 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Posen Area Fire and Rescue management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the respective financial position of the governmental activities and major fund of Posen Area Fire and Rescue, as of March 31, 2008, and the respective changes in financial position for the year then ended, are in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and therefore express no opinion on it.

Johnson & Schulze PC  
Alpena, Michigan  
May 30, 2008

## **POSEN AREA FIRE AND RESCUE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Department's annual financial report presents our discussion and analysis of the Department's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Department as a whole and present a long-term view of the Department's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Department's operations in more detail than the government-wide financial statements.

#### **FINANCIAL HIGHLIGHTS**

Assets at March 31, 2008 totaled \$127,749 for governmental activities. Of the total, \$122,062 represents capital assets, net of depreciation. Revenues derived from governmental activities were \$46,510 (\$42,618 from program revenues and \$3,892 from other revenues). Overall expenditures for the Department's governmental activities were \$53,393.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: (1) management's discussion and analysis (MD&A), (2) the basic financial statements, and (3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Department.

The first two statements are government-wide financial statements and provided both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities; however, the Department had no activities for the fiscal year ended March 31, 2008.

The remaining statements are fund financial statements, which focus on the individual parts of the Department in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the Department as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Department's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenditures, regardless of when received or paid.

## **POSEN AREA FIRE AND RESCUE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Department's assets and liabilities. This is one method to measure the Department's financial health or position. Over time, increases or decreases in the Department's net assets are an indicator of whether financial position is improving or deteriorating. To assess the overall health of the Department, additional factors such as tax base changes, facility conditions, and personnel changes may be considered. Most of the activities of the Department are reported as governmental activities. These would include the operations recorded in the General Fund.

#### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Department's funds, focusing on significant (major) funds, not the Department as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Board may also create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources. The Department only has a governmental fund, as described below.

##### **Governmental Funds**

Most of the Department's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note the differences between the Department's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Department maintains only one individual governmental fund, a General Fund, which we consider to be a major fund. This fund is financed primarily by property tax revenue and state shared revenues.

##### **Fiduciary Funds**

The Department acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Department maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals or organizations to which the funds belong. These activities do not appear in the Department's government-wide financial statements since the assets do not belong to the Department. The Department maintains a Tax Collection Fund in this category.

#### **FUND ANALYSIS OF THE DEPARTMENT AS A WHOLE**

##### **Net Assets**

The Department's governmental activities net assets decreased approximately \$6,883 during the year, to total \$127,749.

## **POSEN AREA FIRE AND RESCUE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

#### **FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS**

##### **Governmental Activities**

The general activities remained consistent, and the Department continued to provide the same services to its residents: fire protection and rescue services.

##### **Capital Asset Administration**

At March 31, 2008, the Department had \$122,062 in capital assets, net of depreciation, including vehicles and equipment.

#### **CONTACTING THE DEPARTMENT MANAGEMENT**

The financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of our finances and to demonstrate our accountability for revenues received. If you have any questions concerning this report, or need additional information, please contact the Secretary/Treasurer at 989-766-2293.

## **BASIC FINANCIAL STATEMENTS**



**POSEN AREA FIRE AND RESCUE**  
**Governmental Funds**  
**Balance Sheet/Statement of Net Assets**

As of March 31, 2008

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 5,687	\$ -	\$ 5,687
Capital assets (net of depreciation)	-	122,062	122,062
Total assets	<u>\$ 5,687</u>	<u>\$ 122,062</u>	<u>\$ 127,749</u>
<b>LIABILITIES</b>			
Accounts payable		-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE / NET ASSETS</b>			
Fund balance - reserved for public safety	5,687	(5,687)	-
Total liabilities and fund balance	<u>\$ 5,687</u>	<u>\$ (5,687)</u>	<u>\$ -</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt		\$ 122,062	\$ 122,062
Restricted for fire protection		5,687	5,687
Total net assets		<u>\$ 127,749</u>	<u>\$ 127,749</u>

The accompanying notes are an integral part of the financial statements.

**POSEN AREA FIRE AND RESCUE**  
**Statement of Governmental Funds Revenues, Expenditures and Changes in Fund**  
**Balance / Statement of Activities**

For the Year Ended March 31, 2008

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
<b>REVENUE</b>			
Local unit contributions	\$ 42,618	\$ -	\$ 42,618
Other	3,892	-	3,892
Total Revenue	<u>46,510</u>	<u>-</u>	<u>46,510</u>
<b>EXPENDITURES</b>			
Salaries and wages	9,735	-	9,735
Rent	4,800	-	4,800
Retirement	885	-	885
Supplies	4,583	-	4,583
Maintenance	4,805	-	4,805
Capital outlay	3,991	(2,428)	1,563
Contracted services	2,908	-	2,908
Training, membership and dues	880	-	880
Utilities	2,147	-	2,147
Insurance	9,893	-	9,893
Depreciation	-	11,194	11,194
Total Expenditures	<u>44,627</u>	<u>8,766</u>	<u>53,393</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES/ CHANGE IN NET ASSETS</b>	1,883	(8,766)	(6,883)
<b>FUND BALANCE/NET ASSETS - Beginning of year</b>	<u>3,804</u>	<u>130,828</u>	<u>134,632</u>
<b>FUND BALANCE/NET ASSETS - End of year</b>	<u>\$ 5,687</u>	<u>\$ 122,062</u>	<u>\$ 127,749</u>

The accompanying notes are an integral part of the financial statements.

# POSEN AREA FIRE AND RESCUE

## NOTES TO FINANCIAL STATEMENTS

March 31, 2008

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Posen Area Fire and Rescue is located in Presque Isle County. The organization provides fire protection to Krakow, Metz, Posen, and Pulawski Townships.

There are five board members, one from each Krakow, Metz, and Pulawski Townships and two from Posen Township, as it has the largest population. The board is made up of the chairperson, secretary/treasurer, and three trustees, all of whom reside in the respective townships.

**Comparative Data** - Comparative data is not included in the Department's financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### **Reporting Entity**

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity," these financial statements present the Posen Area Fire and Rescue (the "Department"), a separate entity formed under the authority of the Rural Cooperation Act, with its members being the townships of Krakow, Metz, Posen, and Pulawski. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental organizations required to be included in the financial statements of the Posen Area Fire and Rescue.

The Department has no blended component units.

The Department has no discretely presented component units.

#### **Government-Wide and Fund Financial Statements**

Separate columns are included in the financial statements for the governmental-wide financial statements and the fund financial statements. The government-wide statements are the Statement of Net Assets and the Statement of Activities. The fund financial statements are represented by the General Fund.

#### **Measurement Focus, Basis of Accounting, and Presentation of Financial Statements**

The Department's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis

## POSEN AREA FIRE AND RESCUE

### NOTES TO FINANCIAL STATEMENTS

March 31, 2008

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of accounting, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Department's governmental fund financial statements are reported using the current financial resources measurement focus. Revenues are recorded using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected either within the current period or within a reasonable time after the end of the period to pay liabilities of the current period. The Department considers a reasonable time to be within 60 days of the end of the current fiscal period. Expenditures generally are recorded using the accrual basis of accounting. However, debt service expenditures are recorded only when payment is due.

The Department reports only one major governmental fund, the General Fund. As this is the Department's only fund, all of the Department's financial resources are accounted for in this fund.

The Department generally follows private-sector standards of accounting issued prior to December 1, 1989 in the preparation of its government-wide financial statements, to the extent that those standards do not conflict with Governmental Accounting Standards Board standards.

#### **Assets, Liabilities & Net Assets**

**1. Bank Deposits and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**2. Capital Assets** - Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the Statement of Net Assets. The Department classifies capital assets as assets with an initial individual cost in excess of \$250 and an estimated useful life of more than two years. Donated capital assets are recorded at estimated fair market value on the date of donation.

Capital assets are depreciated over the following estimated useful lives using the straight-line method:

Machinery and equipment:	5-20 years
Office furniture and equipment:	5-20 years
Vehicles:	10-25 years

**3. Funds** - In the governmental fund financial statements, amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose are reported as reservations of fund balance. Designations of fund balance represent tentative management plans that are subject to change.

#### **NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information** - The Department adopts an annual budget for the General Fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

# POSEN AREA FIRE AND RESCUE

## NOTES TO FINANCIAL STATEMENTS

March 31, 2008

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The proposed budget is presented to the Townships' Boards for review. The Boards hold public hearings on the proposed budget prior to March 31, and the Department must adopt a final budget no later than March 31.

The appropriated budget is prepared by fund, function, and line item. The Department's legal level of budgetary control is the line item level. Expenditures at the line item level in excess of budgeted amounts are a violation of Michigan law. Comparisons of actual results of operations to budget for the General Fund are included in the required supplemental information.

**Compliance** - Posen Area Fire and Rescue does not fully comply with the Uniform Chart of Accounts. The Department is required to maintain a classification of accounts in accordance with the Uniform Chart of accounts for Counties and Local Units of Governments in Michigan issued by the Michigan Department of Treasury, Local Audit and Finance Division, under the authority of Public Act 2 of 1968, as amended, and Public Act 71 of 1919, as amended. This issue is addressed in greater detail in the Letter of Comments and Recommendations to the Board.

### NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, 129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more the 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Department's deposits are in accordance with statutory authority.

Deposits are carried at cost and are at one credit union in the name of Posen Area Fire and Rescue.

Total deposits and investments and the GASB Statement No. 3, risk disclosures for deposits, are as follows:

	Bank Balance	Book Balance
Cash Deposits		
Insured (FDIC)	\$ 6,579	\$ 5,687
Uninsured	-	-
Total Cash and Deposits	\$ 6,579	\$ 5,687

POSEN AREA FIRE AND RESCUE

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE 4. CAPITAL ASSETS**

Capital asset activity of the Department's activities for the current year was as follows:

	Balance			Balance
	4/1/2007	Additions	Disposals	3/31/2008
Capital assets:				
Machinery and equipment	\$ 40,332	\$ 6,084	\$ -	\$ 46,416
Vehicles	343,971	-	-	343,971
Subtotal	384,303	6,084	-	390,387
Less: Accumulated depreciation for:				
Machinery and equipment	67,617	6,985	-	74,602
Vehicles	189,514	4,209	-	193,723
Subtotal	257,131	11,194	-	268,325
Net Capital Assets	\$ 127,172	\$ (5,110)	\$ -	\$ 122,062

**NOTE 5. RISK MANAGEMENT**

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The Department has purchased commercial insurance for property, personal liability, umbrella coverage, worker's compensation and medical benefits claims. There were no reductions in the current fiscal year.

**NOTE 6. DEFINED CONTRIBUTION PLAN**

The Department provides pension benefits to all of its employees through a defined contribution plan. The benefits of a defined contribution plan depend on two factors: amounts contributed to the plan and earnings on these contributions. As established by the Traveler's Company, the Department contributes 4% of employees' gross earnings and employees contribute 6% of earnings.

In accordance with these requirements, the Department contributed \$354.05 during the current fiscal year and employees contributed \$531.10.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**POSEN AREA FIRE AND RESCUE  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISION SCHEDULE**

For the Fiscal Year ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUE</b>				
Local unit contributions	\$ 44,000	\$ 44,000	\$ 42,618	\$ (1,382)
Other	4,000	4,000	3,892	(108)
Total Revenue	<u>48,000</u>	<u>48,000</u>	<u>46,510</u>	<u>(1,490)</u>
<b>EXPENDITURES</b>				
Salaries and wages	10,380	10,320	9,735	585
Rent	4,800	4,800	4,800	-
Retirement	1,000	1,000	885	115
Supplies	4,925	4,897	4,583	314
Maintenance	5,500	5,893	4,805	1,088
Capital outlay	5,500	4,175	3,991	184
Contracted services	2,345	3,095	2,908	187
Training, membership, and dues	900	950	880	70
Utilities	2,650	2,650	2,147	503
Insurance	10,000	10,220	9,893	327
Total Expenditures	<u>48,000</u>	<u>48,000</u>	<u>44,627</u>	<u>3,373</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES/ CHANGE IN NET ASSETS</b>	-	-	1,883	1,883
<b>FUND BALANCE/NET ASSETS - Beginning of year</b>	<u>3,804</u>	<u>3,804</u>	<u>3,804</u>	<u>-</u>
<b>FUND BALANCE/NET ASSETS - End of year</b>	<u>\$ 3,804</u>	<u>\$ 3,804</u>	<u>\$ 5,687</u>	<u>\$ 1,883</u>

The accompanying notes are an integral part of the financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

May 30, 2008

Posen Area Fire and Rescue  
Board of Directors  
Posen, Michigan 49776

We have audited the financial statements of the Posen Area Fire and Rescue as of and for the fiscal year ended March 31, 2008, and have issued our report thereon dated May 30, 2008. As described in Note 1, the Posen Area Fire and Rescue's policy is to prepare its financial statements on the basis of cash receipts and disbursements. Consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Posen Area Fire and Rescue's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Posen Area Fire and Rescue's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that the misstatement amounts would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the

internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee and management of the Posen Area Fire and Rescue and State of Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Johnson & Schulze PC  
Alpena, Michigan

Honorable Board Members  
Posen Area Fire and Rescue  
Posen, Michigan

**LETTER OF COMMENTS & RECOMMENDATIONS**

We are very appreciative for the opportunity to be of service to the Posen Area Fire and Rescue. We hope you find the report to be timely and informative.

Our office is submitting an electronic copy of the audited financial statements, as well as this letter of comments and recommendations in PDF format to the State Treasurer's office. The audit should be formally accepted by your board and indicated so in your board minutes.

We conducted our audit of the Financial Statements of the Department in accordance with the auditing standards generally accepted in the United States of America. The following summary explains both our responsibilities and the responsibilities of the management of the Department.

- Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

Materiality plays a very important role to auditors. We place a larger emphasis on items that have a greater chance of having a material error than those in which the possibility of such an error is remote. Materiality defined is, "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that the financial statements are free from material misstatement. Therefore, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implied in the phrase, "in our opinion".

Auditing standards require us to inform you of significant issues encountered in performing the audit. We have no significant issues to report to you at this time. Audit adjustments will be provided to and reviewed with management at a convenient time in the near future.

There are some comments and recommendations we would like to provide in the interest of improving compliance with various state and federal regulations, and also to increase the internal controls of the Department.

## **Comments and Recommendations for the 2008 Audit Only**

### **1. Chart of Accounts**

The chart of accounts for the Department is functional and followed very consistently. However, the requirements of the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan issued by the Michigan Department of Treasury, Local Audit and Finance Division, under the authority of Public Act 2 of 1968, as amended, and Public Act 71 of 1919, as amended suggest that the Department follow the accounting rules for Michigan governments by implementing the State Uniform Chart of Accounts.

#### **Recommendation**

Due to the above mentioned requirements, it is our recommendation that the Department implement the Uniform Chart of Accounts.

### **2. Internal Controls**

As we audited the basic financial statements of the Department, an internal control weakness considered to be a reportable condition by the standards of the American Institute of Certified Public Accountants was recognized. Due to a relatively small number of employees involved in the accounting process for the Department, it is very difficult for the Department to maintain a complete separation of duties. It is understood that a complete separation of duties is not realistic with the current staff. It is the Board's decision to determine to what extent it makes financial sense to separate the financial duties, i.e., at what point do the benefits of a stronger internal control outweigh the additional costs. We list this item within our comments and recommendations for the purpose of reminding the Board of the limitations in their internal control system.

We do not believe the internal control structure to be a material weakness and mention it only because it is a required communication of the Statement of Auditing Standards No. 60.

#### **Acceptance by Board of Audited Financial Statements**

We suggest that the Department board make a formal acceptance of the audited financial statements at the next available opportunity and note such in the minutes.

Lastly, we would like to close by extending our sincere gratitude to the Board for your patronage, as well as your trust in us to provide your audit services. The management of the Department was excellent to work with, providing us with courteous and timely answers to our inquiries. We are always available should there be any questions, concerns or comments regarding this audit or any other issues that may arise.

Respectfully submitted,

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Johnson & Schulze PC